

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE  
FISCAL IMPACT STATEMENT**

**PROPOSED RULE:** 00-108

**STATE AGENCY:** State Board of Tax Commissioners

**DATE PREPARED:** Jan 26, 2001

**DATE RECEIVED:** Dec 13, 2000

**FISCAL ANALYST:** Bob Sigalow

**PHONE NUMBER:** 232-9859

**Digest of Proposed Rule:** This proposed rule adds 50 IAC 2.3 to incorporate a manual and cost tables for the assessment of real property. The proposal also repeals the current rule regarding the assessment manual.

IC 6-1.1-4-4 requires a general reassessment of real property to be completed every four years. The Indiana Tax Court has ordered that the next reassessment must be effective with the March 1, 2002, assessment date. The State Tax Board, under authority of IC 6-1.1-4-26, may adopt or promulgate regulations, appraisal manuals, rules, bulletins, directives, and forms for the assessment and reassessment of real property. The State Tax Board is also required by IC 6-1.1-31-1 to adopt rules concerning the assessment of tangible property.

**Governmental Entities:** State: This rule places no unfunded mandates upon state government.

The increased tax liability of residential property tax payers as a result of reassessment using the proposed manual will cause the state's liability for Homestead credit to increase. Under current law, the Homestead credit is scheduled to be reduced from its current 10% to 4% beginning in CY 2002. Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any additional Homestead credit expenditures would ultimately come from the General Fund.

Without consideration of any other proposals, the increase in the cost of Homestead credits at 4% in CY 2003 is estimated at \$17.0 M. If it is assumed that changes to the assessment of personal property will be adopted as well as the real property assessment rule, the increase in the cost of Homestead credits at 4% in CY 2003 is estimated at \$5.8 M.

Local: This rule places no unfunded mandates upon any local government unit.

**Regulated Entities:**

The regulated entities affected by this proposed rule are the owners of taxable real and personal property in the state of Indiana.

This proposed rule creates assessment regulations that are intended to meet the courts' mandate to utilize objectively verifiable data to obtain meaningful reference to property wealth. The rule defines the assessment standard as a property's market value in use, that is, the value or sales price a specific property would have in a specific use, usually its current use. This value is obtained utilizing cost tables to calculate replacement or reproduction cost, then applying a neighborhood factor computed using sales prices in a parcel's specific

neighborhood. For owner-occupied residential structures the portion of use representing subsistence housing for the owner is deducted from the cost prior to calculating true tax value. This deduction is known as the shelter allowance.

An analysis was performed by Dr. Larry DeBoer and Bill Jones of Purdue University to determine how the proposed manual compares to the current assessment manual and, specifically, how these changes affect the relative tax burdens on the various classes of property. The analysis included a review of all three of the versions of the manual contained in the proposed rule.

The comparison of the manuals led to the development of property class multipliers. Multipliers are factors that show how true tax values for each property type will change on average when the proposed manual replaces the old. These multipliers were verified by repricing a sample of property record cards representing each class of property. A statewide average impact was calculated and applied to all 92 counties to estimate countywide results. The multipliers were then used to estimate changes in property tax liability by property class.

The following table shows the anticipated percentage change in real and personal property tax liabilities for owners of agricultural, residential, business, and utility property. **This table represents the change in liabilities when considering only this proposed rule and without consideration of any other proposals.** The first item in the table shows the change for the average taxpayer across the state in each of the four property classes. For example, the 19.3% change for the average residential taxpayer shows the amount of increase in the average homeowner's tax bill due to reassessment using the proposed manual. The average and median tax liability changes of the 92 counties are shown. The table also shows the maximum and minimum county percentage change in tax liability.

<b>Percentage Change in Real and Personal Property Tax Liabilities (Without Consideration of Other Proposals)</b>				
<b>Class of Property</b>	<b>Agricultural</b>	<b>Residential</b>	<b>Business</b>	<b>Utility</b>
<b>Average Taxpayer</b>	7.4%	19.3%	-12.1%	-27.6%
<b>Average County</b>	7.8%	12.1%	-14.2%	-27.3%
<b>Median County</b>	9.4%	11.9%	-14.0%	-27.6%
<b>Maximum County</b>	32.4%	58.8%	3.6%	-3.5%
<b>Minimum County</b>	-51.7%	-57.0%	-27.1%	-47.3%

For illustration purposes only, the following table also shows the anticipated percentage change in property tax liabilities under an additional assumption. This table assumes that significant changes to the assessment of personal property will be adopted separately and gives consideration to those changes. The assumed changes include removal of the 35% inventory exemption and a reduction of allowable annual depreciation. **However, the proposed real property assessment rule under review does NOT affect personal property assessments.**

Percentage Change in Real and Personal Property Tax Liabilities (Illustrated With Personal Property Assessment Changes)				
Class of Property	Agricultural	Residential	Business	Utility
Average Taxpayer	0.6%	6.7%	-5.0%	1.4%
Average County	1.0%	-0.8%	-3.5%	5.4%
Median County	3.1%	-0.9%	-3.5%	5.7%
Maximum County	13.1%	40.9%	13.2%	34.4%
Minimum County	-26.9%	-64.4%	-16.1%	-15.4%

The CY 2003 statewide total net property tax levy (after PTRC and Homestead credits) is estimated to be approximately \$5.4 B. The average taxpayer percentage changes for each property class from the DeBoer and Jones study were applied to each class's share of the \$5.4 B total levy in order to estimate the tax dollar impact of the reassessment under this proposed rule. The table below restates the percentage change and also shows the total dollar impact for each property class. Additional Homestead credit payments account for a portion of the change in residential property tax. **This table represents the change in liabilities when considering only this proposed real property assessment rule without consideration of any other proposals.**

CY 2003 Statewide Property Tax Impact (Without Consideration of Other Proposals)		
Class of Property	% Change	Net Tax Change (M)
Agricultural	7.4%	\$ 27.5
Residential	19.3%	398.7
Business	-12.1%	(325.5)
Utility	-27.6%	(83.7)
Less Amount Paid by State Homestead Credit	19.3%	(17.0)
Total		\$ 0.0

The following table also shows the anticipated dollar impact in real and personal property tax liabilities for owners of agricultural, residential, business, and utility property. **However, this table assumes that changes to the assessment of personal property will also be adopted and gives consideration to those changes.**

<b>CY 2003 Statewide Property Tax Impact (Illustrated With Personal Property Assessment Changes)</b>		
<b>Class of Property</b>	<b>% Change</b>	<b>Net Tax Change (M)</b>
<b>Agricultural</b>	0.6%	\$ 2.2
<b>Residential</b>	6.7%	136.0
<b>Business</b>	-5.0%	(136.7)
<b>Utility</b>	1.4%	4.3
<b>Less Amount Paid by State Homestead Credit</b>	6.7%	(5.8)
<b>Total</b>		\$ 0.0

A detailed description of the analysis conducted by Purdue University's Bill Jones and Dr. Larry DeBoer, including property tax shifts by county is available from the Legislative Services Agency.

**Information Sources:** Bill Jones and Dr. Larry DeBoer, Purdue University.